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State Dept. review completed

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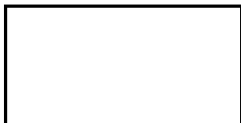
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1. MOSCOW LAYS ECONOMIC BASIS TO IMPROVE
RELATIONS WITH YUGOSLAVIA

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[REDACTED]

The USSR and East Germany signed a protocol on 29 July with Yugoslavia relating to the terms for the construction of the aluminum factory which had been promised the Yugoslavs last summer. The Yugoslavs have announced that this agreement was accompanied by one "relating to the completion dates" for other projects in which the USSR had agreed in 1956 to participate.

Comment

While the details remain to be announced, Belgrade presumably will regard the agreements as a major step toward the restoration of good government relations with the USSR. Tito indicated last week that the outcome of the economic negotiations then under way in Moscow would be the "acid test" of Soviet intentions.

Moscow had earlier claimed that "economic difficulties" had necessitated the postponement of a \$175,000,000 credit for the aluminum project until 1962.

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2. CZECHOSLOVAKIA TO EXPAND AIR SERVICE IN MIDDLE EAST

On 27 July, Czechoslovakia concluded a civil air agreement with Lebanon. The agreement grants reciprocal service between Prague and Beirut and follows the conclusion of a similar agreement with Syria on 24 July for flights between Prague and Damascus.

Czech flights en route to either Beirut or Cairo will be made via Greece, where the Czechs have landing rights, and will probably use Soviet TU-104 jet transports which Czechoslovakia has recently purchased.

The agreement for service to Beirut, the most active international air terminal in the area, gives Czechoslovakia access to a major Middle East commercial air center.

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3. THE SITUATION IN GUATEMALA

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Guatemala is outwardly calm under tight military control, but reports of plotting and impending violence are increasing and trouble may break out within the next few days.

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Government officials, members of the National Democratic Movement, the party of former president Carlos Castillo Armas, fear that army officers are planning to oust Castillo supporters from the government and that some top officials may be murdered,

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If a coup occurs, jealousies existing within army and civilian groups will come out in the open and may result in violence.

In the struggle for power, strong man Defense Minister Col. Juan Francisco Oliva is eliminating from the political scene his major rival, Ambassador to the United States Col. Jose Luis Cruz Salazar, by directing President Gonzalez to send Cruz Salazar back to Washington.

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4. CHOU EN-LAI ATTACKS KISHI'S ATTITUDES ON CHINA

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[REDACTED] Chou En-lai's biting criticism of Japanese Prime Minister Kishi, made in an interview with visiting Japanese news correspondents in Peiping on 25 July, reflects Peiping's concern that a strong anti-Communist policy might emerge under Kishi's leadership. Chou's comments were aimed at arousing Japanese public opinion to forestall such a development.

Chou declared that the Japanese Socialist Party and members of Kishi's Liberal Democratic Party favor early recognition of Peiping, and suggested that Kishi has adopted an unfriendly attitude in order to "seek trouble" with China, alienate other Asian nations from Peiping, and seek the favor of the US. Chou singled out for heaviest criticism Kishi's recent trip to Taiwan, alleging that Kishi declared his support for Chiang Kai-shek's efforts to regain the mainland, and his trip to the US, where Kishi repeated his "slanders" against the Chinese Communists.

In restating his long-sought objectives, Chou called for continued cultural contacts and an exchange of official trade missions as forerunners to full diplomatic relations between the two countries. Kishi has stated that he will not recognize Peiping until it enters the UN, even though he is working toward expanded trade with the mainland.

Chou repeated his promise that the Sino-Soviet treaty of 1950, which guarantees Sino-Soviet collaboration in defense against attacks from Japan, would be "revised" if Japan abrogates its security treaty with the US and brings about the withdrawal of American forces. [REDACTED]

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5. NEW NEPALESE PRIME MINISTER DENIES
HE IS A COMMUNIST

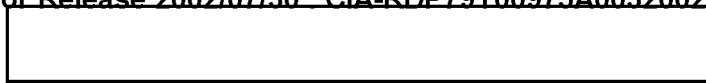
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K. I. Singh, the new Nepalese prime minister, told an American embassy representative on 25 July that he was distressed at the American news accounts of him as a leftist. He asked the representative to assure the American ambassador in New Delhi of his friendship for the United States. He said he is not a Communist but that during his three years in Communist China, where he was in exile following an abortive coup in 1952, he had to behave in a manner pleasing to his hosts.

Singh asked that he be judged by his deeds, not his words. He said he was anxious to keep the Russians and Chinese out of Nepal. He expressed an interest in discussing the American aid agreement after he had studied it.

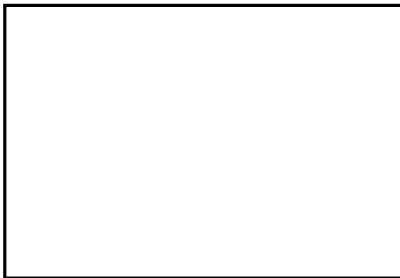
The Indian ambassador is unwilling to guess the degree of Communist influence on Singh. A member of the Nepali congress and a US news correspondent have concluded that Singh is a Communist. The King, however, appears to have accepted his disclaimers at face value.



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**6. U NU INDICATES INTEREST IN COMMUNIST ARMS
OFFERS TO BURMA**

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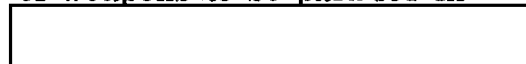
Prime Minister U Nu told the press on 30 July that Burma is studying "with sympathy" offers made by Czechoslovakia and Yugoslavia to sell military equipment to Burma. Nu added that it was the policy

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of his government to purchase arms from any source without regard to "ideological considerations," provided it is within Burma's means to do so.

Nu's remarks would appear to confirm press reports originating in Rangoon last week that the Czechs had offered to sell Burma a wide range of weapons to be paid for in rice at an "advantageous price."

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